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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 001034

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TAGS: ENRG EPET ETRD PREL IZ TU

SUBJECT: TURKEY AND SOMO TALK - BUT FUEL TRADE STILL  
UNCERTAIN

REF: ANKARA 221

Classified By: ECONOMIC COUNSELOR THOMAS GOLDBERGER FOR REASONS 1.5 B A  
ND D

¶1. (C) SUMMARY: Iraqi SOMO and Turkish officials met in Ankara on April 16-18 and reached agreement to move forward in reinstating blocked fuel trade, albeit in a reduced amount, but next action steps lie with SOMO. Turkish suppliers are not optimistic about new contracts and question SOMO's intent to restart the fuel trade, as it seems to have replaced a significant portion of previous trade with Turkey with imports from Iran and Syria. Although the gigantic arrears problem was substantially resolved, a number of commercial disagreements still bedevil getting the fuel trade back on track, including remaining bad blood from Baghdad's letter in January advising Turkey to deal directly with the north (ref). Turkey is adamant that Baghdad is the only interlocutor for the special transit regime, particularly given rampant smuggling. End Summary.

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SOMO and Turkish Delegations Meet, but Still no Contracts  
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¶2. (C) GOT Foreign Trade Undersecretariat (FTU) shared the minutes of the April 16-18 meeting between Turkish and Iraqi delegations in Ankara, aimed to "accelerate the implementation of the Border Trade Arrangement contracts" (e-mailed to Embassy Baghdad ECON). The chairperson of a major supplier stated that the meeting served to ease tensions between the two sides and signaled the shared intention to get back to doing fuel product business. SOMO, he said, represents that it wants products from Turkey, but in a reduced amount of 40,000 tons per month for all products together (LPG, gasoline, diesel, and kerosene). The next step is for SOMO to present a list of companies with whom it proposes to do business. Both sides expected the total number to be about twelve, subject to FTU approval.

¶3. (C) As described by our contact, the main additional elements of the signed minutes include:

a) Although SOMO has made good progress on redressing the so-called category A and B arrears, the category C (older receivables) arrears remain mostly unresolved. SOMO had agreed to consult with companies and work out resolution. SOMO now promised to invite the companies to Baghdad to solve these disputed arrears.

b) SOMO imposed penalties on Turkish companies for alleged "non-performance" when their shipments were stopped by FTU because of smuggling investigations. The companies declared force majeure under their contracts. SOMO was unable to call in performance bonds, but instead unilaterally reduced its payables to Turkish suppliers by about \$15 million. SOMO promised to discuss and seek to resolve this issue with the Iraqi Oil Ministry.

c) SOMO imposed arbitrary deductions for insurance in a total amount of about \$5 million, without any basis in the contracts for such an action. SOMO promised to resolve this issue by June 15.

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Does SOMO Really Want to do Business? - Iran Imports  
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¶4. (C) Another major supplier, state-owned TPIC (Turkish Petroleum International Corporation) Vice President Sadi Gungor painted a more pessimistic picture, complaining that two weeks after the meeting SOMO had still not presented contracts or the list of companies with whom it proposed to do business. He wondered if SOMO had met only as a delaying tactic to buy time and questioned its intent to do business. He lamented that Turkish companies were still eager to do

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business with SOMO, but he had not heard anything from them. Gungor noted that Iraq was now importing about significant quantities from Iran, in amounts as large as 100,000 tons per month. These products were sourced from Turkmenistan and the Iran-Iraq trade was secured by letters of credit to insure timely payment. He noted that there was a comparable amount re-imported from Syria, but the trade was based on more informal border trade.

¶5. (C) COMMENT: Even though the recent meeting was characterized as positive, it is not clear that there will be movement on new contracts with SOMO. In the meantime, Iraq, both in the south and north, appears to be provisioning itself more and more by imports from Iran and Syria, with some increased production and distribution from its domestic refineries. There remains Turkish bad blood from Baghdad's letter in January advising Turkey to deal directly with the north (ref). Turkey is adamant that Baghdad is the only interlocutor for the special transit regime, particularly given rampant smuggling. Although the crisis was resolved with a short-term contract extension, the contracts lapsed in early March, and SOMO traffic has been nil since then.

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